FITCHBURG GAS AND ELECTRIC LIGHT COMPANY

Electric Reconciliation Mechanism and
Inflation Adjustment Filing

D.T.E. 02-_______

TESTIMONY AND SCHEDULES
OF
MARK H. COLLIN

ON BEHALF OF
FITCHBURG GAS AND ELECTRIC LIGHT COMPANY

Presented to the
Massachusetts Department of Telecommunications and Energy

December 20, 2002

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I. INTRODUCTION

Q. Please state your name and business address.

A. My name is Mark H. Collin. My business address is 6 Liberty Lane West, Hampton, New Hampshire, 03842-1720.

Q. What is your position and what are your responsibilities with FG&E?

A. I am the Treasurer and Secretary of Unitil Corporation ("Unitil") and the Treasurer of its principal subsidiaries, including Fitchburg Gas and Electric Light Company and its New Hampshire utility affiliates Unitil Energy Systems, Inc. (Exeter & Hampton Electric Company merged into Concord Electric Company, and the successor company name was changed to Unitil Energy Systems, Inc.) and Unitil Power Corp. I am also the Vice President of Finance for Unitil Service Corp. ("USC") , a subsidiary of Unitil, which provides centralized professional and administrative services to the Unitil System of Companies. My responsibilities are primarily in the areas of finance and utility regulation.

Q. Have you previously testified before the Department of Telecommunications and Energy ("the Department")?

A. Yes, I have. In particular to the issues to be presented to the Department in this proceeding, I testified before the Department in D.T.E. 99-110, the Department's investigation into FG&E's last fully litigated reconciliation filing, and I presented testimony on behalf of FG&E in D.T.E. 01-103, FG&E's 2001 reconciliation filing. I also testified before the Department in D.T.E. 97-115/98-120, the Department's investigation into FG&E's Restructuring Plan filed pursuant to St. 1997, ch. 164 ("Electric Restructuring Act"). Most recently, I provided the principle revenue requirements testimony on behalf of FG&E in its combined gas and electric rate proceedings, D.T.E. 02-24/25.

II. PURPOSE AND BACKGROUND

Q. What is the purpose of your testimony in this proceeding?

A. First, I will provide an overview of FG&E's filing in this proceeding, including a summary of FG&E's proposed tariffs and an introduction of each of FG&E's witnesses that have pre-filed testimony in support of these changes.

Next, I will demonstrate to the Department FG&E's compliance with the Department's Order in D.T.E. 02-24/25, and the Company's settlement with the Attorney General in D.T.E. 01-103 ("D.T.E. 01-103 Settlement"). I will describe the actions taken to reconcile FG&E's costs with the actual transition, standard offer service and default service revenues billed by FG&E in 2002. I will provide an accounting of these changes and an analysis of the impact on the transition, standard offer service and default service rate reconciliation mechanisms.

Last, I will present and explain FG&E's reconciliation models and supporting calculations used to reconcile the costs and actual revenues for Transition Charge, Standard Offer Service and Default Service for 2002. I will also explain the models and supporting calculations used to forecast the costs and revenues for the period October 1, 2002 through December 31, 2003 in accordance with FG&E's Restructuring Plan, the D.T.E. 01-103 Settlement and the directives in D.T.E. 02-24/25.

III. DESCRIPTION OF THE FILING

Q. Please describe today's filing.

A. Today FG&E files tariffs for its Residential Delivery Service (Schedule RD-1, M.D.T.E. No. 92), Low-Income Residential Delivery Service (Schedule RD-2, M.D.T.E. 93), General Delivery Service (Schedule GD, M.D.T.E. No. 94), Energy Efficiency Charge (Schedule EEC, M.D.T.E. No. 96), Outdoor Lighting Delivery Service (Schedule SD, M.D.T.E. No. 95), External Transmission Charge (Schedule ETC, M.D.T.E. No. 97), Transition Cost Adjustment (Schedule TCA, M.D.T.E. No. 98), Standard Offer Service (Schedule SOS, M.D.T.E. No. 99), Default Service (Schedule DS, M.D.T.E. No. 100), and Default Service Adjustment (Schedule DSA, M.D.T.E. No. 101).

Q. Why is FG&E filing these tariffs?

A. The tariffs reflect changes to FG&E's reconciling rate mechanisms, including:

a) Transition Cost Adjustment;

b) Standard Offer Service Adjustment;

c) Standard Offer Service Fuel Adjustment;

d) Default Service Adjustment;

e) Internal Transmission Service Cost Adjustment;

f) External Transmission Charge;

g) Energy Efficiency Charge; and,

h) Renewables Charge.

FG&E's inflation adjustment is also reflected in the tariff changes.

Q. Pursuant to what authority does FG&E file the reconciliation?

A. FG&E files its reconciliation pursuant to the Electric Restructuring Act and its Electric Restructuring Plan.[1]

Q. What is the overall impact of the tariff and rate changes?

A. Taken together, the Department's approval of FG&E's proposed tariffs and rate changes will result in a reduction in rates of 4.36% to a typical residential customer using 500 kWh on Standard Offer Service. Commercial and industrial customers will also see similar rate reductions depending on their particular energy usage characteristics.

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[1] This is the second annual reconcilation since the Department's Order in D.T.E. 99-110.

These rate reductions primarily reflect a decrease in the Standard Offer Fuel Adjustment (SOSFA), which is outside the legislative rate cap constraint. Changes in this directly impact FG&E's overall rate levels (up or down) during this time period when changes in FG&E's total rate levels are otherwise constrained by the inflation-adjusted rate cap.

Q. Please describe the primary parts of this filing for the record.

A. This filing contains:

1. Testimony and Schedules of Mark H. Collin (Exh. FGE-MHC-1) - introducing the seven schedules of models and supporting calculations used to reconcile the Transition Charge, Standard Offer Service Charge and Default Service Charge costs and revenues; and describing and supporting the models used to forecast the costs and revenues for the proposed 2003 Transition Charge, Standard Offer Service, and Default Service.
2. Testimony and Schedules of Karen M. Asbury (Exh. FGE-KMA-1) - reconciling the transmission cost and revenues for 2002 and addressing the cost and revenue forecast for 2003 for the External Transmission Charge and the Internal Transmission Service Cost Adjustment;
3. Testimony and Schedules of Douglas J. Debski (Exh. FGE-DJD-1) - addressing the calculation of the proposed 2003 rates, bill impacts and related

exhibits, including justification for the inflation adjustment and retail rate cap constraint required under the Restructuring Act. Mr. Debski also describes and supports FG&E's 2003 Standard Offer Service Fuel Adjustment, which lies outside the rate cap constraint. Finally, Mr. Debski describes the rate design applicable to implementation of the proposed 2003 Rates; and

4. Additional Appendices - providing support and understanding to the filing in the form of Definitions and Acronyms useful to understanding the filing (Appendix A) and FG&E's Restructuring Plan (Appendix B).[2]

Q. Has FG&E included its workpapers as a part of this filing?[3]

A. Yes, the various "schedules" attached to this filing in many instances constitute FG&E's workpapers. For instance, the Monthly Transition Cost Reconciliation (Schedule MHC-4), while a schedule of import, is also a part of FG&E's workpapers.

Q. Has FG&E included a Summary Table of Reconciliation Charges as required by D.T.E. 99-110, that shows the starting and ending balances of the current reconciliation year for all charges?

A. Yes. The Summary Table of Reconciliation Charges is at Schedule MHC-1.

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2 The Department requires these materials to be filed with the annual reconciliation.

3 The Department requires that workpapers be filed as part of a company's annual reconciliation filing.

Q. What other Schedules do you present as part of your testimony?

A. I present the following schedules, in addition to Schedule MHC-1:

Schedule MHC-2 - Annual Transition Charge Model (Standard Format)

Schedule MHC-3 - Calculation of Above Market Payments to Power Suppliers

Schedule MHC-4 - Monthly Transition Cost Reconciliation

Schedule MHC-5 - Monthly Standard Offer Service Reconciliation

Schedule MHC-6 - Monthly Default Service Reconciliation

Schedule MHC-7 - Purchased Power Lead/Lag Study.

Q. Do these schedules match the schedules filed in D.T.E. 01-103?

A. Yes, for the most part. In Schedule MHC-2, a few changes in the nature of updates were necessitated. All the numbers in the schedules have been updated for actuals through September 30, 2002 on applicable pages. I have updated page 1 of Schedule MHC-2 for the kwh forecast (col. 1), transition charge forecast (col. 2) , and changes to the forecast of the Variable Component of the Transition Charge. The changes to the Variable Component forecast are detailed on Schedule MHC-2 at pages 3, 4 and 15. I updated Schedule MHC-2, page 4 for (i) the final Wyman 4 Settlement credit of $117,000, and ii) a more up-to-date forecast of the PTF Credit. See Schedule MHC-2, fn. at p. 4. On Schedule MHC-2 , page 15, I updated the above market payments forecast related to Hydro Quebec and Linweave contracts based on the most currently available information. In particular, FG&E had the opportunity to mitigate expense by selling capacity associated with its firm transmission rights on the Hydro Quebec tie lines. Therefore, FG&E estimates that $38,000 will flow to ratepayers in 2002 from the revenues received against this commitment, mitigating a cost otherwise borne as part of Transition Cost. These changes feed forward in the model to the forecast of expenses attributable to the Summary of the Transition Cost Variable Component shown on Schedule MHC-2 at page 3 and,in turn, page 1. Finally, on Schedule MHC-2, page 1, I also updated the resulting projections of future deferrals and recoveries. There is no change in the Transition Charge Fixed Component calculation, i.e. Schedule MHC-2 p.2, including the Residual Value Credit, from that stipulated to by the parties in the D.T.E. 01-103 Settlement as approved by the Department.

IV. COMPLIANCE WITH RELEVANT DEPARTMENT ORDERS

Q. What was the outcome of FG&E's last annual electric rate reconciliation filing?

A. In D.T.E. 01-103, FG&E settled with the Attorney General all outstanding issues related to the calculation and reconciliation of the Transition Charge; the calculation and reconciliation of the Internal Transmission Charge, External Transmission Charge, Standard Offer Service Charge, and Default Service Charge for the period March 1998 through September 2001; and, the resetting of rates for each of the reconciling mechanisms for effect January 1, 2003. The Settling Paties also agreed that the reconciliation methods and calculations to be used by FG&E in its future reconciliation filings shall be in accordance with its Compliance Filing as modified by the terms of this Settlement. The Department approved the Settlement in October, 2002.

Q. Does this filing incorporate each of those terms?

A. Yes, it does. FG&E has incorporated each of the approved terms from the Settlement in D.T.E. 01-103. The D.T.E. 01-103 Settlement establishes FG&E's residual value credit for the years 2000, 2001 and 2002, and increase the residual value credit for 2003 through 2009. See Attachment C (Settlement in DTE 01-103) at Art. 2.1. The Settlement also stipulates that FG&E will employ a lower carrying charge on its cumulated balance of over- and under-recoveries in the Transition Charge. Id.

Q. Please describe the proceeding and the issues raised in D.T.E. 99-110.

A. The D.T.E. 99-110 investigation was lengthy and raised a number of issues. Ultimately, the Department directed FG&E to reconcile FG&E's adjustment cost mechanisms for 1998, 1999, 2000 and 2001 based on its findings in D.T.E. 99-110.

IV. TRANSITION CHARGE

Q. Please explain what the Transition Charge is and how the Transition Charge is calculated.

A. FG&E's Transition Charge calculates FG&E's stranded costs and provides a mechanism for recovery of these costs from customers. FG&E's approved Restructuring Plan provides a detailed narrative description of the calculation of transition costs, appropriate adjustments to these costs and supporting schedules that compute the projected recovery of the costs. See Appendix B.[4]

Q. What are the components of FG&E's Transition Charge?

A. According to the methodology approved by the Department for FG&E, which is similar -- and in many respects identical -- to the methodology used by the majority of electric distribution companies across the state, the Transition Charge is comprised of a Fixed Component and a Variable Component.

Q. Do FG&E's Transition Charge reconciliation models reflect any standardization?

A. Absolutely. FG&E is required by D.T.E. 99-110 to provide the standard format schedules found in Schedule MHC-2. Schedule MHC-2 reflects the annual reconciliation of FG&E's Transition Charge using the costs and revenues for the period through September 30, 2002, and a forecast of costs and revenues thereafter, including

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[4] FG&E's Restructuring Plan was subsequently modified by the Department's Order in D.T.E. 97-115/98-120 approving the Restructuring Plan, and more recently in D.T.E. 99-110, but the basic underpinnings of the calculation of the Transition Charge remain unchanged.

the year 2003, as required by D.T.E. 99-110 and in accordance with the methodology and calculations agreed to and approved by the Department in D.T.E. 01-103.

Q. Please summarize the costs that have been included in the Transition Charge mechanism pursuant to Company's approved Restructuring Plan and the Department's orders concerning this Plan, including the Order in D.T.E. 99-110 and the Order approving the Settlement Agreement in D.T.E 01-103.

A. The most efficient manner for matching these costs to FG&E's Restructuring Plan and the Department's orders is to provide such information in tabular form. See Table MHC-1.

TABLE MHC-1		
Line #	**Costs from December 20, 2002 Reconciliation Filing (SCHEDULE MHC – 2 AND SCHEDULE MHC-4)**	**Correlation to Restructuring Plan or subsequent filings or orders**
TRANSITION CHARGE FIXED COMPONENT		
1.	Amortization of Fixed Costs	❖ See FG&E's approved Restructuring Plan, Appendix B, Tab E, Exhibit 1, Page 1, 1.1.1 for a description of the components of the amortization. ❖ Modifications pursuant to Order D.T.E. 99-110 and Settlement in D.T.E 01-103 ❖ See SCHEDULE MHC – 2, page 5 and 6.
2	Carrying Charges on Fixed Costs	❖ See FG&E's approved Restructuring Plan, Tab E, Exhibit 1, Page 2, 1.1.2. for a description of the components of the carrying charges. ❖ Modifications pursuant to Order D.T.E. 99-110 and Settlement in D.T.E 01-103. ❖ See SCHEDULE MHC – 2, pages 5 and 6.
4.	Residual Value Credit	❖ See FG&E's approved Restructuring Plan, Appendix A, Tab E, Exhibit 1, Page 3, 1.1.3 (b). ❖ Modifications pursuant to Order D.T.E. 99-110 and Settlement in D.T.E 01-103. ❖ Includes "second" RVC for Sale of Millstone 3 Ownership Interest, D.T.E. 00-68 (2001). ❖ See SCHEDULE MHC – 2, page 7 through 10.
TRANSITION CHARGE VARIABLE COMPONENT		
8.	Above Market Payments to Power Suppliers	❖ See FG&E's approved Restructuring Plan, Appendix B, Tab E, Exhibit 1, Page 6, item (b) which provides for recovery of Above Market Payments to Power Suppliers, including payments by FG&E under Long-Term Power Supply Contracts, less the market value, in FG&E's variable costs. ❖ Modifications pursuant to Order D.T.E. 99-110 ❖ See SCHEDULE MHC-2, page 3 , and supporting workpaper SCHEDULE MHC – 3.

9. 10. 11.	NHH HI- and LO-VOLT (NEPOOL WYMAN 4 HI- and LO-VOLT MILL 3 HI- AND LO-VOLT (Transmission Wheeling Support Payments)	❖ See FG&E's approved Restructuring Plan, Appendix B, Tab E, Exhibit 1, Page 7, item (g) which provides for recovery of transmission wheeling support costs in Variable Component of Transition Charge. ❖ See SCHEDULE MHC–2, page 17.
12.	NEP PTF Credit	❖ In FG&E's approved Restructuring Plan, FG&E moved the PTF Credit to the Transition Charge in compliance with Department Order D.T.E./D.P.U. 97-115/98-120 at p. 48 (Jan. 15, 1999). ❖ See SCHEDULE MHC-2, page 4.
13.	Post-shutdown Nuclear Decommissioning	❖ See FG&E's approved Restructuring Plan, Appendix B, Tab E, Exhibit 1, Page 5, 1.2.3 (a) that provides for recovery of these costs in FG&E's variable cost recovery component. ❖ See SCHEDULE MHC–2, page 14.
14.	Power Contract Buyouts – Select Retained Entitlement Obligation	❖ See FG&E's approved Restructuring Plan, Appendix B, Tab E, Exhibit 1, Page 6, item (c) that provides for recovery of these costs as part of the variable cost component. ❖ See SCHEDULE MHC–2, page 11.
15.	Employee severance and retraining	❖ See FG&E's approved Restructuring Plan, Appendix B, Tab E, Exhibit 1, Page 6, item (e) which provides for recovery of these costs as a part of the variable cost component. ❖ No cost recovery requested
16.	Claims by or against third parties	❖ See FG&E's approved Restructuring Plan, Appendix B, Tab E, Exhibit 1, Page 7, item (f) Provides for recovery of these costs as part of the variable cost component. ❖ No cost recovery requested
17.	Other Adjustments	❖ See MHC – 2, page 4.

Q. What is the proposed Transition Charge for 2003?

A. FG&E proposes to set the Uniform Transition Charge at $0.01187 per kWh. The calculation of this charge is fully explained in the Testimony of Douglas J. Debski (Exh. FGE –DJD-1).

A. Obligation To Mitigate Stranded Cost

Q. Has FG&E taken every reasonable step to mitigate its Transition Charge, related both to purchase power expenses and to owned generation?

A. Yes it has.

Q. Has FG&E divested its generation?

A. Yes, it has. FG&E's divestiture was complete when FG&E divested the power entitlements and then its ownership interest of the Millstone 3 Nuclear Station and Wyman 4, both of which were approved by the Department. D.T.E. 99-58 (2000); D.T.E. 00-68 (2001).

Q. Did the sale of FG&E's ownership interest in Millstone 3 confer additional benefits upon FG&E's customers aside from a reduction to the Transition Charge?

A. Yes, it did. FG&E's customers are no longer obligated to make decommissioning payments and have been released from all contingent liabilities and obligations as a result of this sale.

Q. Have the divestiture activities undertaken by FG&E been consolidated into a single publicly available reference?

A. Yes. A summary of FG&E's mitigation activities, along with copies of each relevant Department order, is contained in Report on the Activities of Fitchburg Gas and Electric

Light Company to Mitigate Transition Costs, filed with the Department as part of D.T.E. 00-66 (Jan. 19, 2001).

B. The Transition Charge Fixed Component

Q. What is the Transition Charge Fixed Component and what is it intended to recover?

A. The Transition Charge Fixed Component is the portion of Transition Cost recovery assigned to stranded costs associated with generation assets and generation-related regulatory assets. Therefore, this component recovers the unrecovered net book value of generation plant balances and generation-related regulatory assets that have been stranded as a result of restructuring.

Q. What period are the fixed costs recovered over?

A. These costs are amortized over a 12-year period commencing on March 1, 1998, and continuing through December 31, 2009, with carrying charges adjusted for taxes.

Q. Have you calculated the Transition Charge Fixed Component?

A. Yes. A summary of the calculation is provided Schedule MHC-2, page 2. The actual calculation of the Transition Charge Fixed Component of FG&E's Transition Charge is performed in Schedule MHC – 2, pages 5 and 6, for Owned Generation and Generation-Related Regulatory Assets, respectively. This calculation is further supported by several of the standard format Annual Transition Charge schedules provided in Schedule MHC – 2.

Q. Is the calculation of the Transition Charge Fixed Component in accord with the D.T.E. 01-103 Settlement?

A. Yes. All agreed-upon changes resulting from the Settlement are reflected in the 2002 filing and are incorporated in the Annual Transition Charge calculation (Schedule MHC-2) and the Monthly Transition Cost Reconciliation (Schedule MHC-4). That is, there is no change in the Transition Charge Fixed Component calculation from that stipulated to by the parties in the D.T.E. 01-103 Settlement as approved by the Department. Schedule MHC- 2, page 8, line 31.

C. The Transition Charge Variable Component

Q. The Variable Component of the Transition Charge recovers what part of FG&E's transition cost?

A. The Variable Component of FG&E's Transition Charge includes the above-market cost of long term purchase power, economic buyout payments, nuclear entitlement and decommissioning-related costs, and certain transmission wheeling and support charges associated with FG&E's entitlements in generation assets, as well as other generation-related costs and expenses. The calculation of the Transition Charge Variable

Component is presented in summary fashion in Schedule MHC–2, page 3. This calculation is further supported by several of the underlying standard format Transition Charge schedules provided in Schedule MHC–2, as well as by the Above Market Payments to Power Suppliers calculation shown in Schedule MHC-3 and the Monthly Transition Cost Reconciliation detail shown in Schedule MHC-4.

Q. What is the primary stranded cost that comprises the Transition Charge Variable Component?

A. The above-market cost associated with FG&E's long-term power purchase agreements constitutes that greatest cost in proportion to the total Variable Cost in the Transition Charge for the period prior to the divestiture of FG&E’s power supply portfolio to Select Energy (March 1, 1998 – February 1, 2000). See Schedule MHC-2, page 15. Following the divestiture to Select in February 1, 2000, the greatest cost items that remain in FG&E's Transition Charge Variable Component are the economic buyout payments ("retained entitlement obligation") FG&E pays to Select Energy under the terms of the buyout agreement. These costs are shown on Schedule MHC-2, page 11 (col. 6) and detailed on Schedule MHC –3.

Q. Are there changes to the calculation of the Variable Component of FG&E's Transition Charge as a result of D.T.E. 99-110 and the Settlement in D.T.E. 01-103?

A. Yes, there are, and each is reflected in the standard format Annual Transition Cost model (Schedule MHC-2) and the Monthly Transition Cost Reconciliation (Schedule MHC-4). The method of calculating the Variable Component of the Transition Charge was conclusively determined as part of the Settlement approved in D.T.E. 01-103.

D. Residual Value Credit

Q. Please explain the calculation of the Residual Value Credit in the Transition Charge.

A. FG&E's Restructuring Plan provides for a Residual Value Credit ("RVC") to account for the sale proceeds for the divestiture of its generating units as an offset to the Transition Charge Fixed Component.

Q. Does FG&E's 2002 Filing present the Transition Charge RVC as it has the other components of the Transition Charge to accord with the Department's directives?

A. Yes. The calculation of the Transition Charge RVC is performed at Schedule MHC-2, page 7 and 8. The method of calculating and the level of the RVC were conclusively determined as part of the Settlement approved in D.T.E. 01-103.

V. STANDARD OFFER SERVICE CALCULATION AND RECONCILIATION

Q. What are the Standard Offer Service Charge and the Standard Offer Service Adjustment?

A. The Standard Offer Service ("SOS") Charge and the Standard Offer Service Adjustment recover the FG&E's direct SOS Costs. There was an interim period during which FG&E supplied energy from its existing portfolio to retail customers, beginning March 1, 1998. In particular, during the period of March 1, 1998 through February 28, 1999, FG&E provided SOS from its own power supply portfolio in accordance with its Restructuring Plan (Appendix B), which at that time had been approved on an interim basis by the Department.

Q. Does FG&E continue to provide SOS service?

A. No, it does not. In March of 1999, FG&E began acquiring SOS -- resulting from a fully competitive bidding process -- from Constellation Power Source under a contract approved by the Department. D.T.E. 97-115/98-120 (1999).

Q. Were there changes to the calculation of the Standard Offer Service Adjustment as a result of the Department's Order in D.T.E 99-110?

A. Yes, there were, and each has been reflected in the Standard Offer Service Adjustment reconciliation.

Q. What changes do you propose to the Standard Offer Service Charge as a result of the Electric Division's base rate proceeding, D.T.E. 02-24/25?

A. In that proceeding, the Department ordered that FG&E (1) may seek recovery of cash working capital for its purchased power for each of the purchased power services in FG&E's reconciliation proceeding; (2) should apply the benefits produced by its deferred tax balances arising from accrued electric revenues as an offset against the carrying charges associated with standard offer and default service; and (3) may seek recovery of generation-related uncollectibles in standard offer and default service rates.

Q. Does the Company seek recovery of cash working capital for its purchased power as part of the provision of Standard Offer Service?

A. Yes, it does. The Department required, however, that if FG&E made such a request, that it include a lead lag study to support its purchased power cash working capital request.

Q. Has the Company included this study?

A. Yes, it is included as Schedule MHC-7.

Q. Please describe the study and explain what Electric Division expense Purchased Power Cash Working Capital intended to address.

A. Purchased Power Cash Working Capital provides cash working capital for expenses paid by FG&E on customers' behalf to FG&E's Default Service ("DS") energy suppliers, its Standard Offer Service (“SOS”) energy suppliers, and to the providers of External Transmission (“ET”) services.

Q. Why is it appropriate to include cash working capital Purchased Power as a component of the purchased power reconciling mechanisms?

A. It is appropriate because FG&E continues to be the provider of last resort for customers’ energy supply requirements. Post-restructuring, FG&E is responsible for making payments for energy supply and for billing, collecting, and financing such costs on behalf of customers that take Default Service or Standard Offer Service. Furthermore, as the Department has stated in D.T.E. 02-24/25 at 51 (2002), “The Company may seek recovery of cash working capital for its purchased power for each of the purchased power services (i.e., standard offer service and default service) in a separate proceeding. This approach is consistent with our treatment of cash working capital for purchased gas. See Boston Gas Company, D.P.U. 88-67 (Phase One) at 40-43 (1988).”

Q. Is the payment of power supply, billing and collecting the only type of expense included under the Purchased Power Cash Working Capital?

A. No. FG&E must also ensure that customers receiving supply pay for External Transmission service to get the energy to the local distribution grid.

Q. Does FG&E currently receive recovery for the working capital employed in obtaining External Transmission service in its External Transmission Charge mechanism?

A. No. The cost of working capital for external transmission service is not currently recovered in the External Transmission Charge.

Q. How was the Lead/Lag Study conducted?

A. FG&E based the Lead-Lag Study upon data for the twelve months ended December 31, 2001, adjusted for known and measurable changes. The revenue lag and expense lead days resulting from the Lead/Lag Study have been applied to the latest twelve months of purchased power expenses to determine the cash working capital requirements.

Q. Please define the terms "lag days" and "lead days."

A. Lag days are computed between FG&E and its customers. Lag days are the number of days between delivery of a service to FG&E's customers and the receipt by FG&E of payment and availability of funds for the service (revenue lag). Lead days are computed as between FG&E and its vendors. They are the number of days between the average delivery date energy is purchased by FG&E or services are rendered by a vendor and the wire/Automated Clearing House (ACH) payment or depository bank clearing date (expense lead).

Q. How is revenue lag computed?

A. Revenue lag is computed in days, consisting of three time components: (1) from receipt of electric service to meter reading; (2) from meter reading to billing; and (3) from billing to collection. The sum of the days associated with these four lag components is the total revenue lag experienced by the Electric Division. Schedule MHC -7, page 3 of 21.

Q. What lag does the Lead/Lag Study reveal for the component "receipt of electric service to meter reading?"

A. The Lead/Lag Study reveals 15.21 days. This lag was obtained by dividing the number of days in the test year (365 days) by 24 to determine the average monthly service period.

Q. What lag does the Lead/Lag Study reveal for the component "meter reading to billing?"

A. The billing lag is 2.43 days. This lag determines the time required to process the meter reading data and to send out customer bills based on the collected data. This billing lag is influenced by factors such as contract terms, billing investigation, and the nature of the billing process.

Q. What lag does the Study reveal for the component "billing to collection?"

A. The lag is 38.61 days. This lag reflects the time delay between the mailing of customer bills and the receipt of the billed revenues from customers. Collection lag in individual circumstances is influenced by contract terms, postal delivery delays, customer inquiries, billing disputes, and other factors.

Q. Is the total revenue lag computed from these separate revenue lag calculations?

A. Yes. The total revenue lag of 56.25 days is computed by adding the number of days associated with each of the three revenue lag components. This total number of lag days represents the amount of time between the recorded delivery of service to customers and the receipt of the related revenues from customers.

Q. Now let's turn to the lead periods in the Lead/Lag Study. In determining the expense lead period, how were the weighted days lag in payment of purchased power costs determined?

A. First the monthly expense lead for each vendor is determined by aggregating (1) the average days in the month that the energy or service is received, and (2) the additional billing period up to the receipt of revenue from FG&E's customers. Then the aggregate lead days are weighted as described in the Lead/Lag Study. Schedule MHC - 7, page 4 of 21.

Q. How is the total Purchased Power Lag determined?

A. The lag in payment of purchased power costs of 40.51 is subtracted from the lag in receipt of revenue of 56.25 days to produce the total purchased power lag of 15.74 days. Schedule MHC - 7, page 5 of 21.

Q. Please describe how the 15.74 days of purchased power lag will be applied to each component (Standard Offer Service, Default Service and External Transmission Charge).

A. The purchased power lag of 15.74 days is divided by 365 days and applied to the monthly purchased power costs as it applies to each rate component. This figure is called the working capital requirement. FG&E's tax adjusted cost of capital is then multiplied by the working capital requirement to arrive at the cost of working capital to be recovered. The detailed computations have been incorporated into FG&E's proposed tariff in M.D.T.E No. 99. The computations are demonstrated in Schedule MHC-6, Page 5 of 6.

Q. Has the Company complied with the Department's requirement that it should apply the benefits produced by its deferred tax balances arising from accrued electric revenues as an offset against the carrying charges associated with standard offer service?

A. Yes, it has. As demonstrated on Schedule MHC-5, pages 1 and 2 of 7, FG&E has applied the after-tax interest rate to its deferred balances. This is the same methodology that was employed in the Gas Division's Compliance Filing for the Cost of Gas Adjustment Clause (CGAC) in D.T.E. 02-24/25. This change has also been reflected in the Company's proposed tariff for Standard Offer Service, M.D.T.E. No. 99.

Q. Is the Company seeking recovery of energy-related bad debt in standard offer rates?

A. Yes it is. As demonstrated in Schedule MHC-5, page 5 of 7, FG&E has incorporated bad debt costs using test year bad debt expense and allocation factor determined in D.T.E. 02-24/25. FG&E will update its allocation factor for approval by the Department in each annual reconciliation proceeding. FG&E has reflected these changes in its proposed tariff for Standard Offer Service, M.D.T.E No. 99.

Q. Is there any other issue you would like to raise with regard to the calculation of the Standard Offer Service Charge?

A. Yes. As the Department knows, FG&E is required to comply with the recently promulgated renewable portfolio standards and as a result, incurs the costs of renewable energy certificates related to its provision of Standard Offer Service. FG&E seeks recovery of these costs through its Standard Offer Service as shown on Schedule

MHC-5, page 5 of 7. FG&E has also reflected this in revisions to its proposed Standard Offer Service tariff, M.D.T.E. No. 99.

Q. What is the Standard Offer Service Charge for 2003?

A. The charge is explained in the Testimony of Douglas J. Debski (Exh. FGE-DJD-1), and his Schedule DJD-1. The Standard Offer Service Charge increases from $0.04200 per kWh to $0.04700 per kWh in accordance with FG&E's tariff page M.D.T.E. No. 44 to calculate the mandated 15% rate reduction. FG&E has proposed revisions to M.D.T.E. No. 44, however this provision is unaffected.

VI. DEFAULT SERVICE CHARGE AND RECONCILIATION

Q. What is the Default Service Charge and what is it intended to accomplish?

A. The Default Service Charge recovers costs approved by the Department as part of FG&E's Restructuring Plan (Appendix B, Tab D, Page IV.5). The Default Service Charge reflects the cost of acquiring power supply from the competitive market.

Q. How has FG&E acquired the Default Service supply that it has sold under this rate?

A. FG&E acquired its Default Service supply through a Department-approved competitive market solicitation, representing the cost of the Default Service supply by the external default service supplier cost, plus working capital, bad debt expense and deferred tax benefit and other supply costs from NEPOOL, the New England ISO, not recovered elsewhere in base rates.

Q. Are there changes to the calculation of the Default Service as a result of the Department's Order in D.T.E 99-110?

A. Yes, there are, and each is reflected in the Default Service reconciliation.

Q. What changes do you propose to the Default Service Charge as a result of the Electric Division's base rate proceeding, D.T.E. 02-24/25?

A. In that proceeding, the Department ordered that FG&E (1) may seek recovery of cash working capital for its purchased power for each of the purchased power services in FG&E's reconciliation proceeding; (2) should apply the benefits produced by its deferred tax balances arising from accrued electric revenues as an offset against the carrying charges associated with standard offer and default service; and (3) may seek recovery of generation-related uncollectible expense in standard offer and default service rates.

Q. Does the Company seek recovery of cash working capital for its purchased power as part of the provision of Default Service?

A. Yes, it does. The Department required, however, that if FG&E made such a request, that it include a lead lag study to support its purchased power cash working capital request. That study is provided at Schedule MHC-7 and described above under the description of cash working capital for inclusion in Standard Offer Service. The detailed computations have been incorporated into FG&E's proposed tariffs in M.D.T.E No. 100. The computations are demonstrated in Schedule MHC-6, Page 6 of 7, and Schedule KMA-1, Page 6 of 7.

Q. Has the Company complied with the Department's requirement that it should apply the benefits produced by its deferred tax balances arising from accrued electric revenues as an offset against the carrying charges associated with Default Service?

A. Yes, it has. As demonstrated on Schedule MHC-6, pages 1 and 2 of 6, FG&E has applied the after-tax interest rate to its deferred balances. This is the same methodology that was employed in the Gas Division's Compliance Filing for the Cost of Gas Adjustment Clause (CGAC) in D.T.E. 02-24/25. This change has also been reflected in the Company's proposed tariff for Default Service, M.D.T.E. No. 101.

Q. Is the Company seeking recovery of energy-related bad debt in Default Service rates?

A. Yes it is. As demonstrated in Schedule MHC-6, page 4 of 6, FG&E has incorporated bad debt costs using test year bad debt expense and allocation factor determined in D.T.E. 02-24/25. FG&E will update its allocation factor for approval by the

Department in each annual reconciliation proceeding. FG&E has reflected these changes in its proposed tariff for Default Service, M.D.T.E No. 100.

Q. Are there any other costs included in Default Service for recovery?

A. Yes. The Department expressed in its order in D.T.E. 02-24/25 that FG&E may demonstrate the reasonableness of recovering certain costs associated with power supply in its next reconciliation filing. After examining the costs for 2002, FG&E determined that a portion of cost classified to that account was properly related to ICAP billing by New England ISO, but related to Default Service. Therefore, FG&E has included that cost for recovery in its Default Service charge. The other expenses in that category, that are expected to recur, are related to Pinetree Power, a qualifying facility on FG&E's system. FG&E will mitigate any additional charges to ratepayers by absorbing these costs.

Q. What is the Default Service Adjustment for 2003?

A. FG&E proposes to set the Default Service Adjustment to its customers at zero, or $0.00000 per kWh.

Q. Is there a year-end balance in the Default Service Adjustment?

A. Yes.

Q. If there is a year-end balance in this account, why has FG&E proposed that the Department set a rate of $0.00000 for this service?

A. The Transition Charge has a much higher year-end deferral and has a higher interest charge on deferrals than the Default Service Adjustment. Since there is not enough headroom under the rate cap established by the Electric Restructuring Act to collect the entire balance in both accounts, FG&E proposes to continue to prioritize the recovery in order to collect first the costs that are more expensive to customers (e.g. the under-collection in the Transition Charge Account). By doing so, FG&E will lessen the impact on customers in the future by quickly eliminating the balance with the higher carrying charge. FG&E believes this is the most reasonable method for ensuring the least cost to customers, while at the same time adhering to the requirements of the Electric Restructuring Act's price cap.

Q. When does FG&E anticipate it will recover the deferred costs associated with its provision of Default Service?

A. As stated in FG&E's Reconciliation Filing in 2001, FG&E will begin recovering these costs when the Transition Charge has been reduced to such a level as to permit headroom under the rate cap. In the meantime, the year-end balance will accrue interest at the prime rate, as detailed in FG&E's tariff, M.D.T.E. No. 101 - Default

Service Adjustment, and carry the balance over to each consecutive year until the balance may be recovered.

VII. CONCLUSION

Q. Does this conclude your testimony?

A. Yes, at this time.